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SUBJECT: MPs Examine Role of Media in Economic Crisis

11. (SBU) As part of its enquiry into the banking crisis, the House of Commons' Treasury Committee looked at the role of the media in financial stability and whether financial journalists should operate under reporting restrictions during banking crises. A committee specialist told the Embassy this line of enquiry was introduced because of public interest regarding the role of particular journalists in the crisis. Journalists have been accused of talking down the economy and specific institutions, exacerbating the downturn with doom-mongering. (Anecdotally, we have heard that the recent snow disruptions provided welcome relief from the usual incessant economic gloom on the news.) Robert Peston, the BBC's business editor, faced particular pressure for his role in the collapse of Northern Rock. In September 2007, Peston broke the story that Northern Rock requested emergency funding from HMG. His broadcasts, it was claimed, caused panic amongst the bank's depositors and sparked a run on its retail deposits. The British Bankers' Association said Peston acted "injudiciously" during his reporting on the bank's problems.

12. (U) The media's role in the downturn was highlighted by Richard Lambert, director-general of the Confederation of British Industry and former editor of the Financial Times, in a December 2008 speech. He accused the media of becoming part of the story and said it was not surprising that one of the most visible, controversial personalities that emerged from the crisis was not a banker, but a journalist - Robert Peston. He contrasted the banking crisis of 1973-75 with today's, saying the difference between the two was that the 70s' crisis took place behind closed doors and did not enter the public consciousness. He warned the media about the harm of unsourced quotes and the reporting of unsubstantiated rumors and said editors should steer clear of melodramatic headlines.

13. (U) As a result of public interest in the media's role, the Treasury Committee held a hearing with financial journalists: Robert Peston, the Financial Times editor Lionel Barber, Daily Mail city editor Alex Brummer, Guardian columnist Simon Jenkins, and Sky News presenter Jeff Randall on February 4. When asked whether he felt he had caused the run on Northern Rock, Peston said: "I have obviously given a lot of thought to this and the answer is no." He said the bank had a flawed business model and structural problems that left it particularly vulnerable to a run on its retail deposits, namely a small number of branches and inadequate server capacity for its website. He added that a "wholesale run," not a retail one, had caused the bank to collapse. Alex Brummer, however, said Peston's "excitable" broadcasts may have contributed to the run, and the tone of the report could have caused confusion. He said it may have helped if Peston had a "calm, traditional BBC voice." The witnesses all denied the need for additional regulation of journalists during a banking crisis. Jenkins said a new regulatory framework shouldn't be used to restrict journalists who are trying to act in the public interest. Barber said regulating the press would not solve the current problem. Financial instability has been caused by a "catastrophic failure of management of risk and regulators," not by media reports, he said.

14. (U) Jenkins told MPs that much of the doom-mongering had been

initiated by HMG. He speculated that HMG used the press to drive down the share prices of some UK banks, to lower the cost of recapitalization. He said that financial journalists had found themselves in a "predicament" during the banking crisis, saying: "the government, knowing it was about to acquire large chunks of these banks was, I sense, using the press to force down the share price." He accused ministers of de facto insider trading. He said some leaks were "clearly designed to rig the market." His accusations were fiercely denied by the other witnesses.

15. (U) The British public is unaware of the scale and depth of the problems facing the UK economy, concluded Randall. He said the UK is headed for two more years of "economic misery." Barber agreed that the UK will suffer a "severe recession" and said the shape of the banking system will change dramatically. Jenkins said the real problem is the British "obsession" with banks, adding that HMG "wasted stupefying amounts of money on banks" which should have been spent on the real economy and stimulating demand. Brummer, in contrast, said he wouldn't be surprised if "green shoots" of recovery begin to show because HMG has acted quickly.

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